



UMDONI MUNICIPALITY

THE J.E.W.E.L OF THE SOUTH COAST

MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK BUDGET

2018/2019 FINANCIAL YEAR

TABLED FOR CONSULTATION

30TH MARCH 2018





UMDONI MUNICIPALITY
BUDGET DOCUMENTATION FOR THE 2018/2019 BUDGET YEAR

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1. MAYORS REPORT

The 2018/19 budget of Umdoni Municipality has been prepared in line with the Integrated Development Plan (IDP), National development plan (NDP) and MFMA relevant circulars issued for further guidance. The development priorities as outlined in the IDP and NDP have been taken into consideration. The 2018/2019 budget has been prepared during trying times where "South Africa has experienced a period of protracted economic weakness which diminishes private investment. This may be attributed to domestic constraints, associated to political uncertainty, and declining business and consumer confidence. The local economy is beginning to recover after a short recession in early 2017 however the improvement is insufficient."... MFMA Circular 91. Umdoni Municipality was in no way exempt to the harsh economic realities associated with the recession.

However, the municipality has taken a constructive approach in the new financial year. New priorities have been identified and previous priorities have been further emphasised.

A significant portion of the budget has been allocated towards the rural roads, urban road networks, community facilities and recreational facilities. The budget was fundamentally prepared around these main priorities. These areas had been given the attention after carefully analysis of the state of our infrastructure, which is irrefutable deteriorating and also considered the geographical space of the municipality as the tourist attraction. To further depict the capital budget; major allocations have been made as follows;

- 44.09 % allocated towards Roads Infrastructure
- 20.27% allocated towards Community Facilities
- 15.89% allocated towards Sport and Recreation Facilities
- 8.64% % allocated towards Transport Assets
- 7.22% allocated towards Machinery and Equipment

The operational budget has been prepared taking into cognisance of the current economic conditions as well historical performance of the municipality. Tariff increases have been effected but limited to inflation rates (CPIX) at 5.3% for 2018/19. The same rate has been applied across the operating expenditure categories (where the incremental budgeting approach was necessary) except for Employee related costs and the Remuneration of Councillors. In overview, the operating expenditure has increased by 2.26% and the total income has decreased by 4.32% when compared with the recently adopted Adjustment Budget. Income was budgeted more realistically and reflects the municipality's ability to collect this revenue.

Expenditure was contained as far as possible in line with the cost containment measures. Service delivery needs were given the priority over funds whilst administrative expenditure was



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decreased. In an effort to limit the rising employee costs, a limited number of new posts were budgeted for whilst the rest were frozen.

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The budget presented shows our commitment to the community. The crucial point of this budget is on upgrading and maintaining the road network, upgrading community facilities and restoring recreational facilities. Furthermore, non-priority spending has been curtailed in order to invest more funds towards service delivery.

It is anticipated that this budget will empower the municipality to move towards achieving the strategic objectives and serve the community to the best of its abilities.



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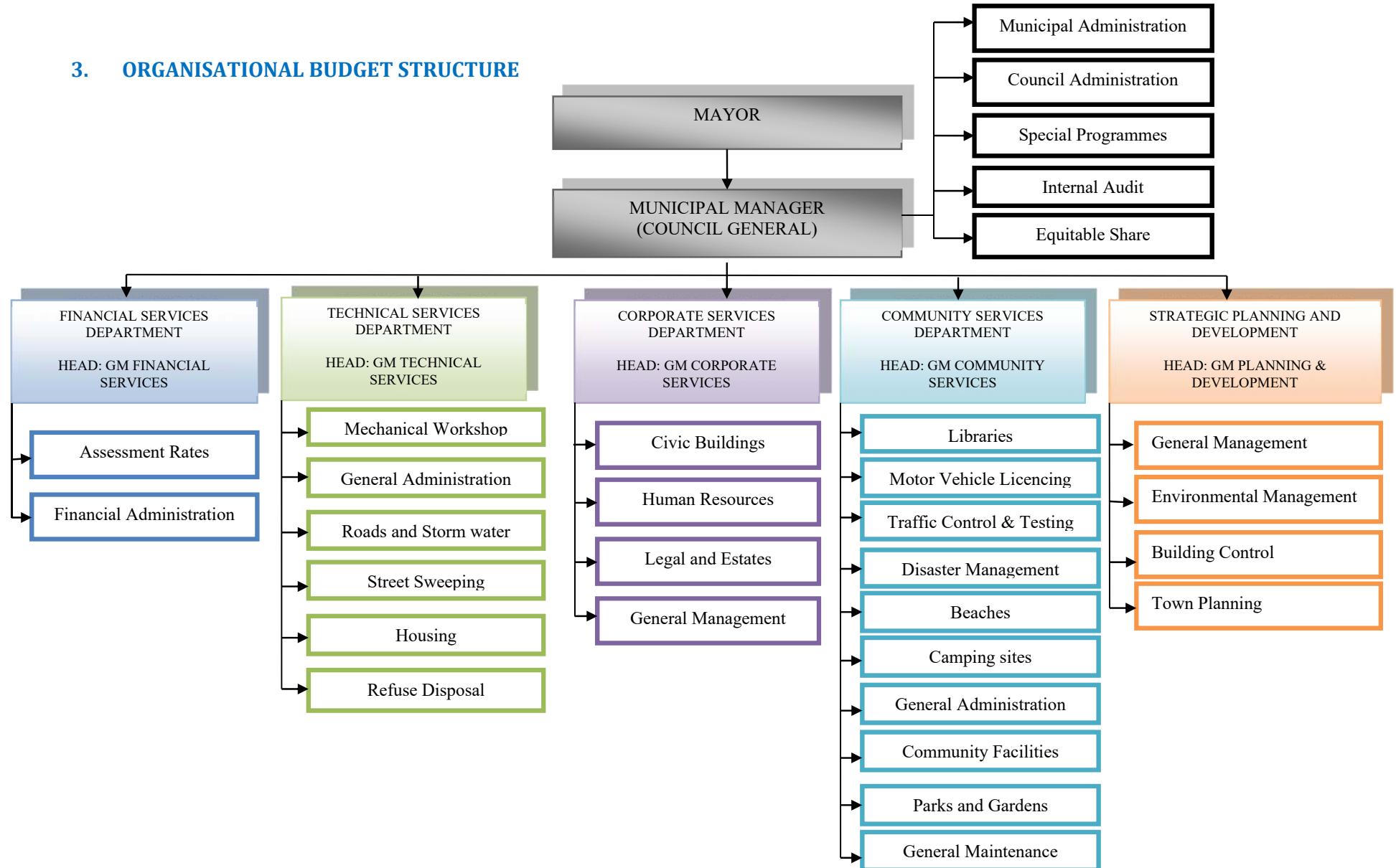
2. RESOLUTIONS

As required in terms of Section 16(2) of the Municipal Finance Management Act, No.56 of 2003, the Council of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

The following resolutions are tabled for consideration as resolutions for draft budget which is subject to public consultation with the stakeholders;

- 1.1 That the draft annual capital and operating budgets of the municipality for the financial year 2018/2019 are tabled as a Draft Budget for public consultation as set out in the following schedules:
 - a) Budgeted Financial Performance Summary by Revenue Source and Expenditure by Category as reflected in Annexure 1;
 - b) Budgeted Financial Performance - revenue and expenditure by municipal vote as reflected in Annexure 2;
 - c) Budgeted Financial Performance - revenue and expenditure by GFS as reflected in Annexure 3;
 - d) Budgeted Capital Expenditure by vote, GFS classification and funding as reflected in Annexure 4; and
 - e) Budgeted Capital Expenditure by asset class as reflected in Annexure 5
 - f) Budgeted Capital Expenditure by line item as reflected in Annexure 6
- 1.2 That the Tariff of Charges reflected in Annexure 6 is tabled for public consultation for the 2018/2019 financial year.
- 1.3 That the property rates randages and rebates have been kept constant to 2017/2018 rates, as reflected in the budget documents are tabled as draft for the 2018/2019 financial year.
- 1.4 The A1 budget tables as presented are tabled as draft for consultation

3. ORGANISATIONAL BUDGET STRUCTURE





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4. EXECUTIVE SUMMARY OF THE 2018/2019 BUDGET

4.1 VISION, MISSION AND OBJECTIVES OF THE UMDONI MUNICIPALITY

VISION

"BY 2020 UMDONI WILL BE THE JEWEL OF THE SOUTH COAST."

MISSION STATEMENT

"WORKING TOGETHER IN CONTRIBUTING TO JOB CREATION, ECONOMIC VIABILITY THROUGH SUSTAINED LOCAL ECONOMIC DEVELOPMENT TO ENSURE THE WELL BEING OF OUR COMMUNITY IN ECO FRIENDLY ENVIRONMENT."

PRINCIPALS OF UMDONI MUNICIPALITY

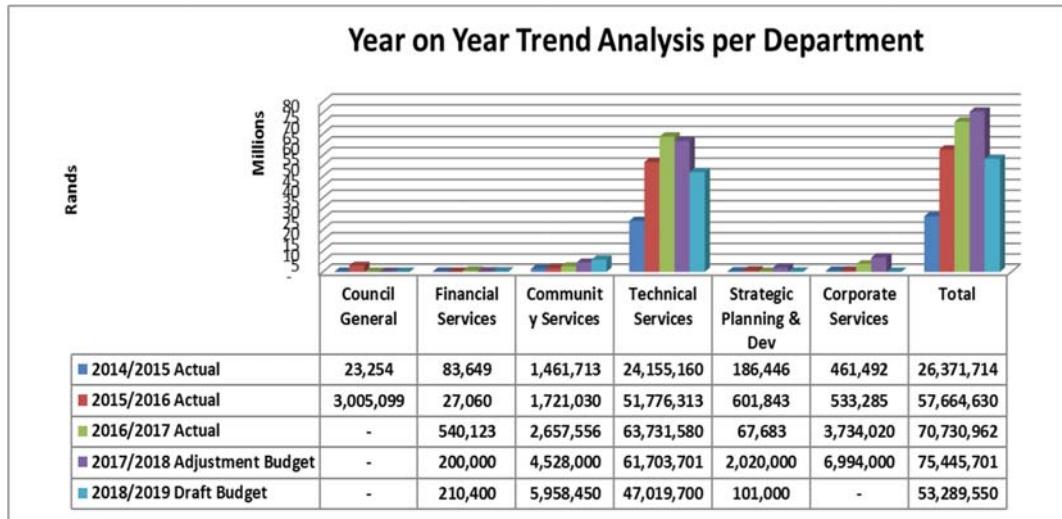
- **JOB CREATION**
- **ECONOMIC VIABILITY**
- **WELLBEING OF THE COMMUNITY**
- **ENVIRONMENTALLY FRIENDLY ENVIRONMENT**
- **LOCAL ECONOMIC DEVELOPMENT**



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4.2 2018/2019 CAPITAL BUDGET OVERVIEW

The 2018/2019 Capital Budget has been estimated at R 53 289 550. A graphical representation of the capital growth of the municipality can be portrayed as follows:



As evident from the above graph, it is clear that the capital budget has decreased from R 75.4 million in the adjustment budget to R 53.2 million for the upcoming financial year.

To this end a large proportion of the capital budget, approximately 44.09% is geared toward upgrading of rural as well as urban roads. R29.1 million, funded from MIG. Community facilities have also been provided for at 20.27%; 15.89% allocated towards Sport and Recreation Facilities; 8.64% % allocated towards Transport Assets; 7.22% allocated towards Machinery and Equipment.

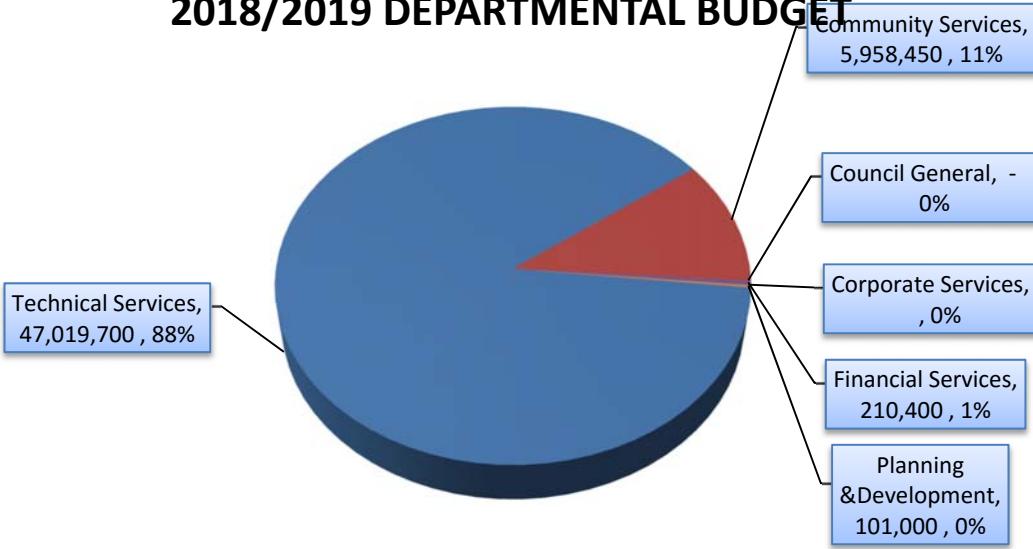
From the graph presented, it is clear that year on year the majority of Umdoni's Capital Budget is split between Community Services and Technical Services, however in the 2017/2018 financial year, Corporate Services took a significant portion of the capital budget which was attributable to the need for the ICT Infrastructure Upgrade in order for the municipality to be able to host the MSCOA Charts and database in the financial system. This shows Umdoni's commitment to providing infrastructure for the community rather than spending administratively.

The capital budget for the 2018/2019 financial year is focused toward improving the lives of the communities, and therefore 88% of the capital budget has been targeted toward Technical Services and 11% for Community Services. The main projects in the capital budget is the renewal of roads. In addition an amount of R 11.5 million has been budgeted for the new urban roads. This signifies Umdoni's commitment to maintenance on infrastructure. The greater part of other capital items are all geared towards service delivery.

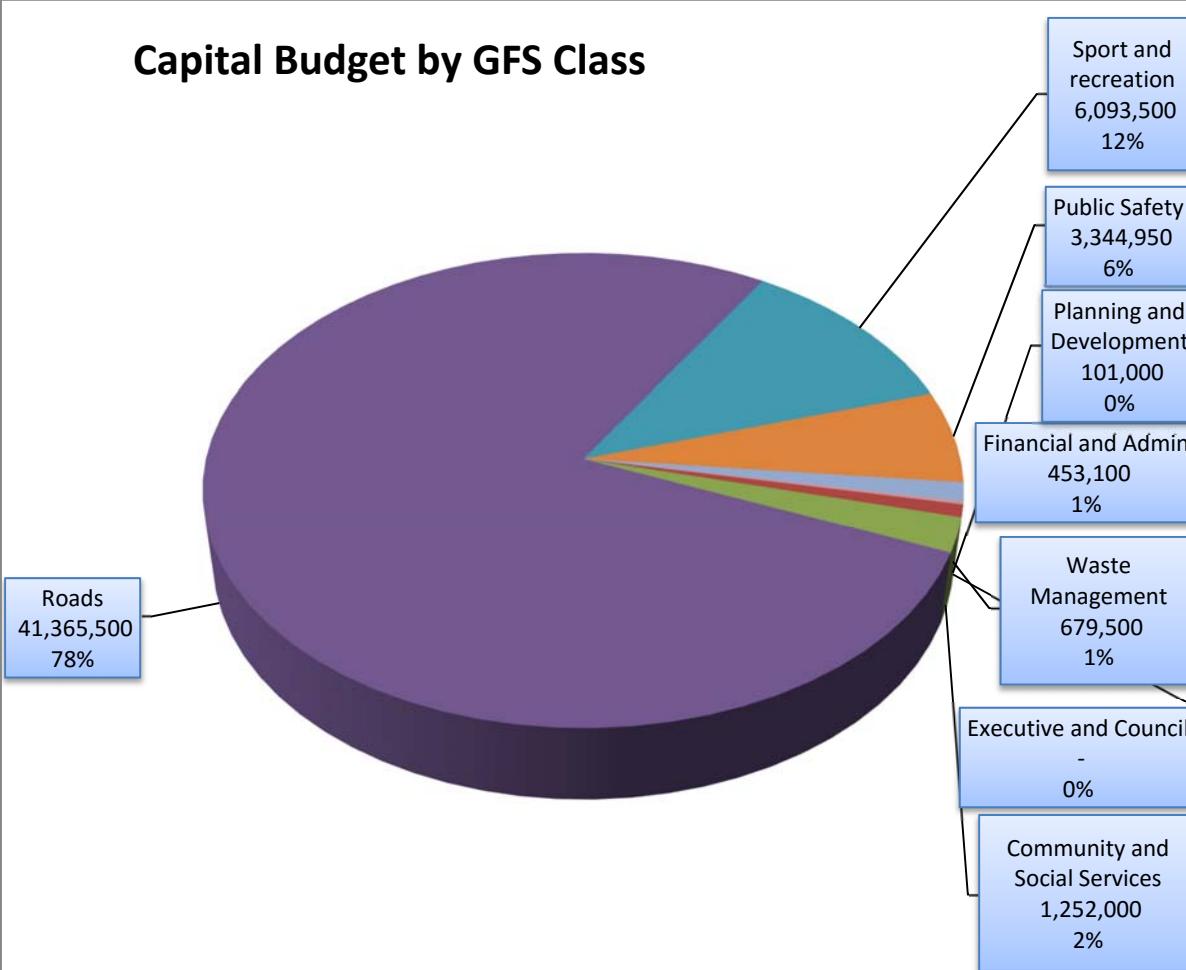


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2018/2019 DEPARTMENTAL BUDGET



Capital Budget by GFS Class





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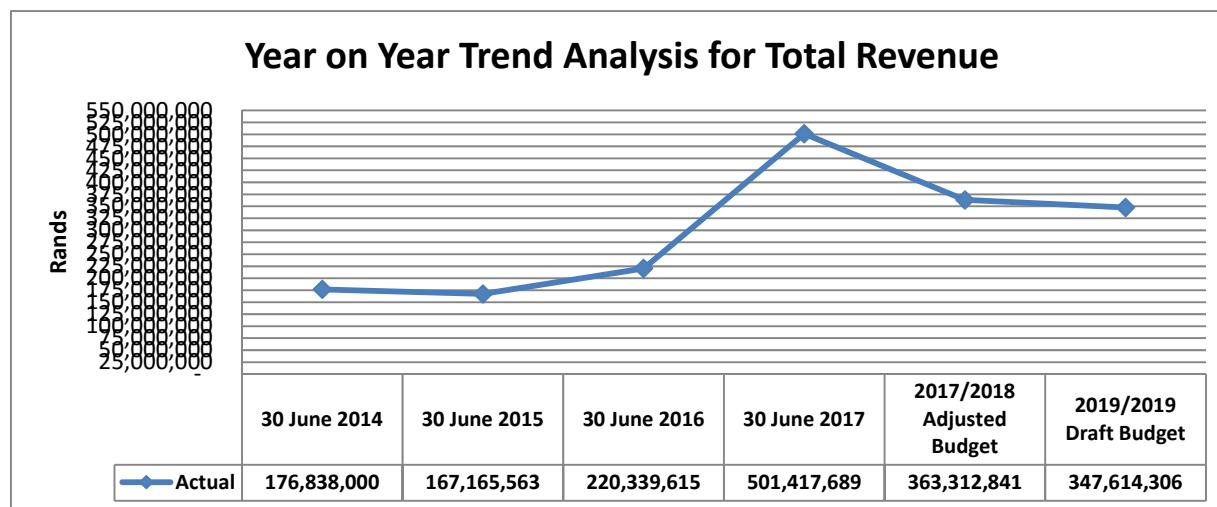
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The above mentioned graph categorises the capital budget by GFS classification, with roads and stormwater receiving the largest allocation of 78%, Sport & Recreation 12%. This again highlights Umdoni Municipality's commitment to the community .

4.3 2018/2019 OPERATIONAL BUDGET OVERVIEW

OPERATING REVENUE

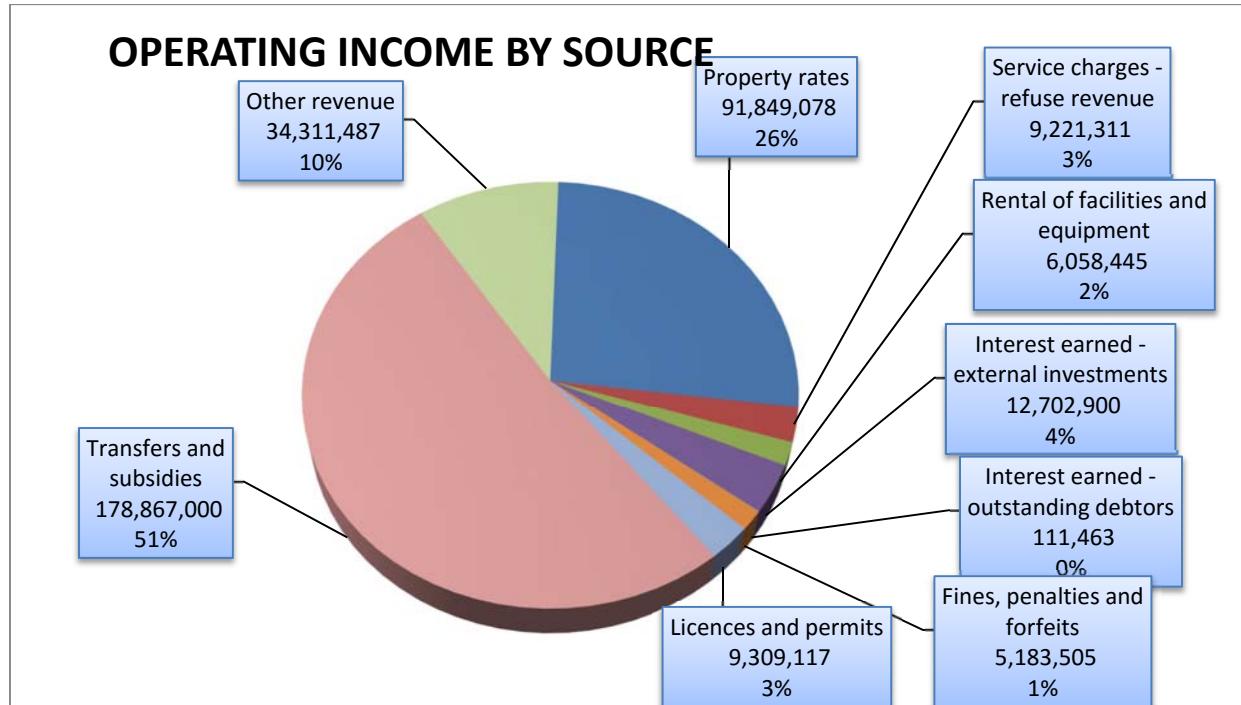
The estimated operating income has been projected at R 347.6 million. An analysis of prior year trend levels of income is reflected below:



Income levels have been projected based on current actual collection levels and the 2018/19 budget indicates income levels which are realistic and attainable by the municipality. The impact of the global economic crisis as well as current inflation rates have been considered extensively during the establishment of these income levels, as a substantial amount of consumers will no longer be able to afford the level of increases experienced in the past.



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As indicated above, 26% of the income anticipated to be received by the municipality relates to property rates, secondly to Government Grants which represent 51% of the estimated income. Included in the grants and subsidies are the equitable share allocation which has been calculated at R 118.5 million, followed by R 4.3 million allocated for the Finance Management Grant, as well as R 8.5 million from the Departments of Arts and Culture(DSRAC) for library services. Also R58 000 has been allocated to the municipality for Sports facilities Maintenance by DSRAC. The department of Cooperative Governance and Traditional Affairs (COGTA) has also allocated to the municipality amount of R 1 million for Spatial Development Framework Support Grant. In addition, R 1.2 million has been allocated for the EPWP grant. The municipality has also been allocated an amount of R 14 mil for INEP Grant and R 30.1 mil for MIG.

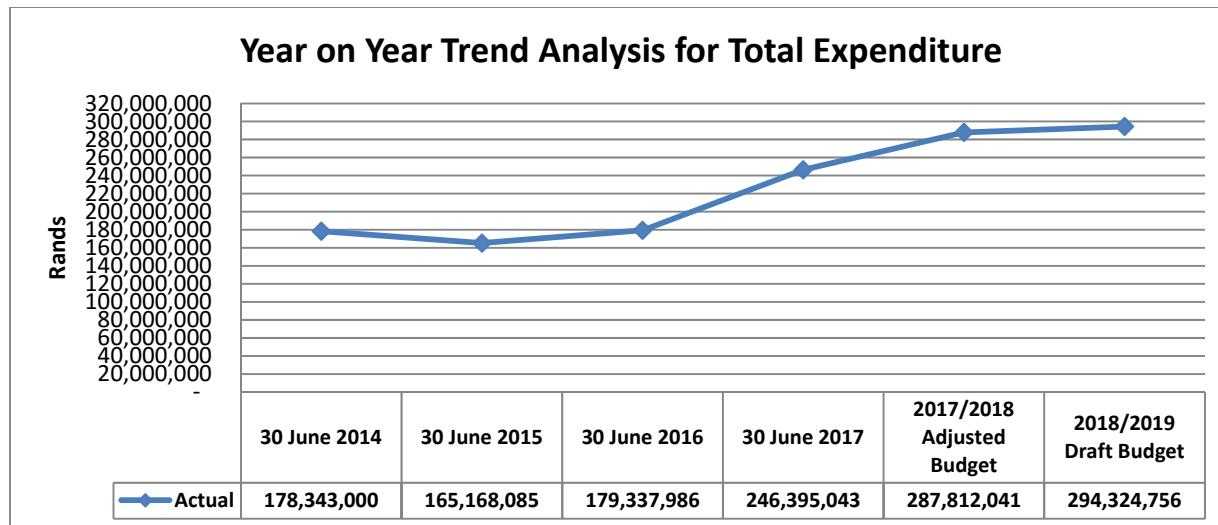
Total Revenue has decreased from the previous financial year mainly due to the decrease in Government grants, specifically the MIG. Other notable decrease is on other income amounting to -R 13,709,093.16; which emanates from reserves income which is relatively low as compared to the Adjustment Budget. Property Rates income has increased by R 10,334,351.41 and Fine income by R 4,933,504.62. Most of the fluctuations in revenue types is caused by classification alignment with MSCOA in which the municipality has prepared the budget in accordance with those classification requirements in an attempt to comply with the regulations.



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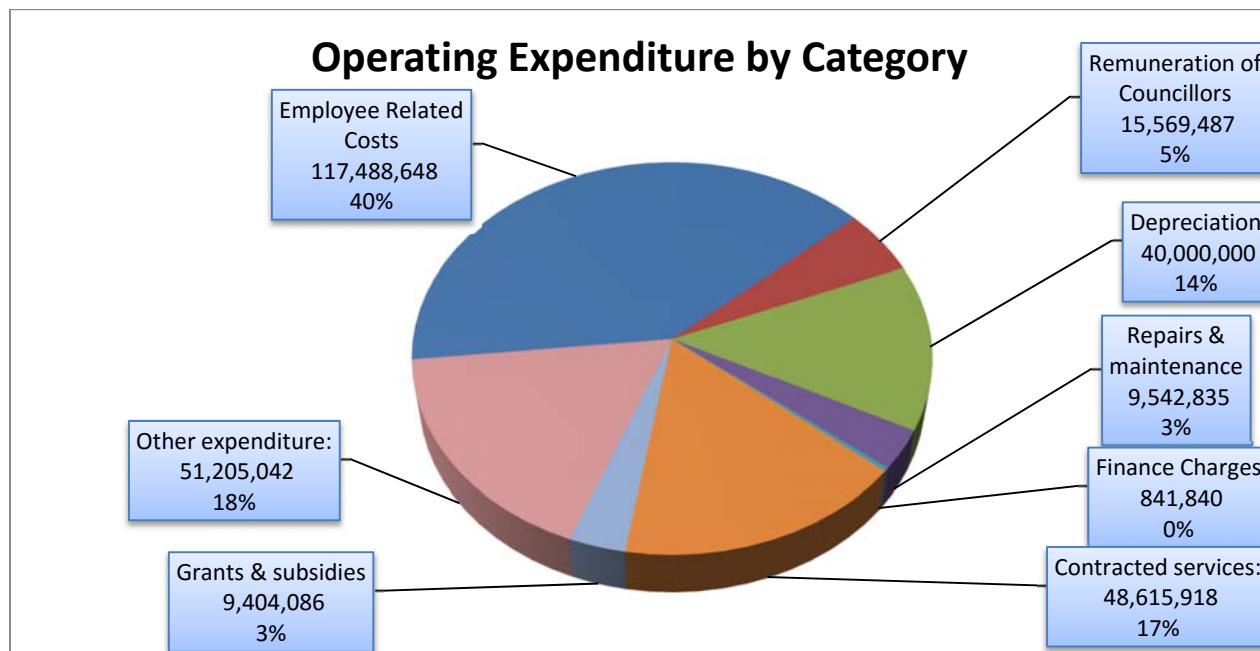
OPERATING EXPENDITURE

The total operating expenditure has been estimated at R 294.3 million. The graph below reflects the trend of expenditure levels as follows:



Whilst our income base has been limited due to the current economic times, the day to day operational expenditure is increasing, which is attributable to inflationary increases and increased service delivery expectations. We therefore find ourselves in a situation where we have to spend the reduced income that we have on expenditure that matters, and will improve the lives of the communities that we serve. Therefore, this budget was prepared on the basis that administrative expenditure will be reduced, and that targeted expenditure, based on our strategic priorities, is enhanced.

Expenditure on the 2018/2019 budget has been allocated as follows:



The graph above shows that 40% of budgeted expenditure will be spent on Employee Related Costs. Salaries have been posing a huge problem for our Municipality in recent years. While income is being limited to a decrease of 4.32%, employee costs have been increasing on average 7%, 5.4% and 5.5% for 2018/19, 2019/20 and 2020/21 financial years respectively. Employee costs were budgeted at an estimated increase of 7% calculated based on the trend of Salary increases. The municipality elected this budget assumption because wage negotiations are still in progress. As explained above measures had been put in place to curb the growing employee related costs. Councilor allowances have been set at the upper limit provided by SALGA. The municipality is embarking on a drive in order to curtail Employee costs in an effective manner i.e. without compromising Service Delivery and avoiding costly retrenchments.

In addition to employee costs, other expenditure continues to increase gradually and that is expected in order to provide the same level of service to the community, administrative costs have been drastically reduced. In line with the cost containment measures and numerous circulars, various expenditure items have been reduced such as travelling, advertising, printing and stationery and consultants. While the figures displayed may show an increase in expenditure budgets, this increase is minimal as we must acknowledge that Umdoni has absorbed the, previously known as, Vulamehlo Municipality and are administering all matters in the new jurisdiction without incurring major administration cost increases.

The repairs and maintenance budget forms 3.24% of budgeted operating expenditure for the year. Although the NT circular recommends 8% of PPE to be budgeted for repairs and maintenance, Umdoni has budgeted approximately 3.24%. The reasons for this is in two folds. First and foremost; the municipality cannot afford to budget the recommended 8%. Furthermore, approximately R 41, 8 million has been budgeted under the capital



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budget for renewal of Roads and Storm water infrastructure. This equates to the majority of the Capital Budget. The necessary attention has been devoted to the Roads Infrastructure, but the focus is more on the renewal of roads infrastructure.

As part of Operating expenditure; the municipality has budgeted for contracted services. This expenditure category has been in overall, increased by 19.88%. The relatively high increase of the contracted services, is influenced by the classification changes within the expenditure categories. Due to the introduction of MSCOA, some of expenditure types which used to be classified under general /other expenditure are now classified as contracted services. Included in the contracted services; is the budget Integrated National Electrification Programme (INEP) amounting to R 14 million; R 3, 5 million for the refuse contractor; R3,5 million for cleaning services contract; R 1,9 million for Shark Nets; R 1,6 million for swimming supervision; R4,3 million for Accounting , Auditing and Valuation Roll Services. In addition to the above, R 1 mil has been set aside for Planning & Development operational projects i.e. urban design and SPLUMA. The municipality has further, appropriated under the contracted services category; R 1 million for the communication strategy; R1 million for the IDP/Budget roadshows catering expenses; R 1.3 million for the Internal Audit Section including the remuneration for audit committee which is classified under this category. Furthermore, R 800 000 has been aside for Sport and Recreation projects. The municipality has also budgeted for; under this category, R 4, 6 million towards security services; R 1, 3 million for legal advice and litigation and lastly R 3, 3 million towards Human Resources Programmes.

The municipality has set aside funds; under the Grants and Subsidies category; for social assistance to the indigent households an amount of R 468 795. An amount of R3, 7 million has been allocated towards free basic services which include refuse and electricity. R 46 200 has been set aside for Emergency relief expenses under Disaster Section. The municipality has also provided for in the budget; R 1, 7 million geared towards the Skills Development Programme which is implemented through the Co-Ops. In addition to what has been narrated above but still under this item; R 5 million has been set aside for the Municipal Demarcation Grant expenditure. The municipality has also provided for in its budget, the section 20 schools at R 930 000. The municipality has also further appropriated in its operating budget; R 487 000 towards tourism contribution; R 551 000 set aside for UGU South Coast Development Agency.

In compliance with the MFMA and budget circulars, the municipality has budgeted for the Depreciation and Asset Impairment at R 40 million. The increase equates to 10%. Budget for this item has been estimated after taking into account GRAP requirements and possible impairment losses and reversals there off. The impact of the renewals on roads infrastructure planned to take place in the next financial year has also been taken into account.



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5. 2018/2019 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK TABLES

Umdoni Municipality has tabled the 2018/2019 annual budget in the format that is in accordance with the budget regulations, where possible, as follows:

- a) Budgeted Financial Performance Summary by Revenue Source and Expenditure Category for all Departments as reflected in Annexure 1;
- b) Budgeted Financial Performance - revenue and expenditure by department as reflected in Annexure 2;
- c) Budgeted Financial Performance - revenue and expenditure by municipal vote as reflected in Annexure 3;
- d) Budgeted Financial Performance - revenue and expenditure by line item as reflected in Annexure 4;
- e) Budgeted Capital Expenditure by vote, GFS classification and funding as reflected in Annexure 5; and
- f) Budgeted Capital Expenditure by line item as reflected in Annexure 6
- g) A1 Schedule

The above, and all other budget related documents shall be submitted to National Treasury.

6. TARIFF OF CHARGES – 2018/2019 FINANCIAL YEAR

The tariff of charges for the upcoming financial year have been reviewed on an individual basis by all respective departments and have been open to comments by both Councilors and Officials. The revised tariff of charges has been included in Annexure 7 for consideration by the public. In certain instances tariffs have not increased. Where increases were effected, these were, as far as possible limited to 5.3%.

7. PROPERTY RATES RANDAGES AND REBATES – 2018/2019 FINANCIAL YEAR

Umdoni Municipality implemented the Municipal Property Rates Act for the first time for the 08/09 financial year. This resulted in a revaluation of all properties within the Umdoni area, and was aligned to market related values. With this valuation, came the implementation of a new rates policy, and applicable tariffs, rebates and relief to the poor.

The current economic situation has further increased the financial burden on households throughout the country and has contributed to the struggle of day to day living and job security and sustainability. In addition to this, with the latest amendments to the MPRA, municipalities need to phase out rating for Public Service Infrastructure over 4 years, a loss of substantial income for the municipality.

As a sphere of government, we are sensitive to the crisis that we face, and therefore we have accounted for a constant rate in the rates randages for the upcoming financial year. The municipality is implementing the new valuation roll which has been effective from the 01st July 2017. In the new valuation roll, values had been increased and as a result the municipality has decided to keep constant the tariffs due to the current economic crisis and taking into account the affordability of the ratepayers.



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Therefore, for 2018/2019 financial year, we propose the rates randages and rebates as indicated below:

Category	18/19 Rates	17/18 Rates
	Randage	Randage
Residential	R 0.00994	R 0.00994
Commercial / Business	R 0.01330	R 0.01330
Industrial / Mining & Quarries	R 0.01330	R 0.01330
Agricultural Farms and Smallholdings	R 0.00249	R 0.00249
State Owned Property	To be rated on usage	To be rated on usage
Public Service Infrastructure	R 0.00249	R 0.00249
Vacant Other	R 0.02503	R 0.02503

The rebates applied for the 2018/2019 financial year is proposed to remain the same as the 2017/2018 financial year:

	R
Residential (R 60,000 elective and 15,000 legislated)	75,000.00
Vacant Other	15,000.00
Disabled Persons/Pensioners/Indigent (Incl R 75000 above)	370,000.00
Medium to High Density level developments (Sectional Titles and Share blocks) 4% on rates due for the financial year	
Annual payments on or before a date to be determined - 2.5% of the net rates raised	



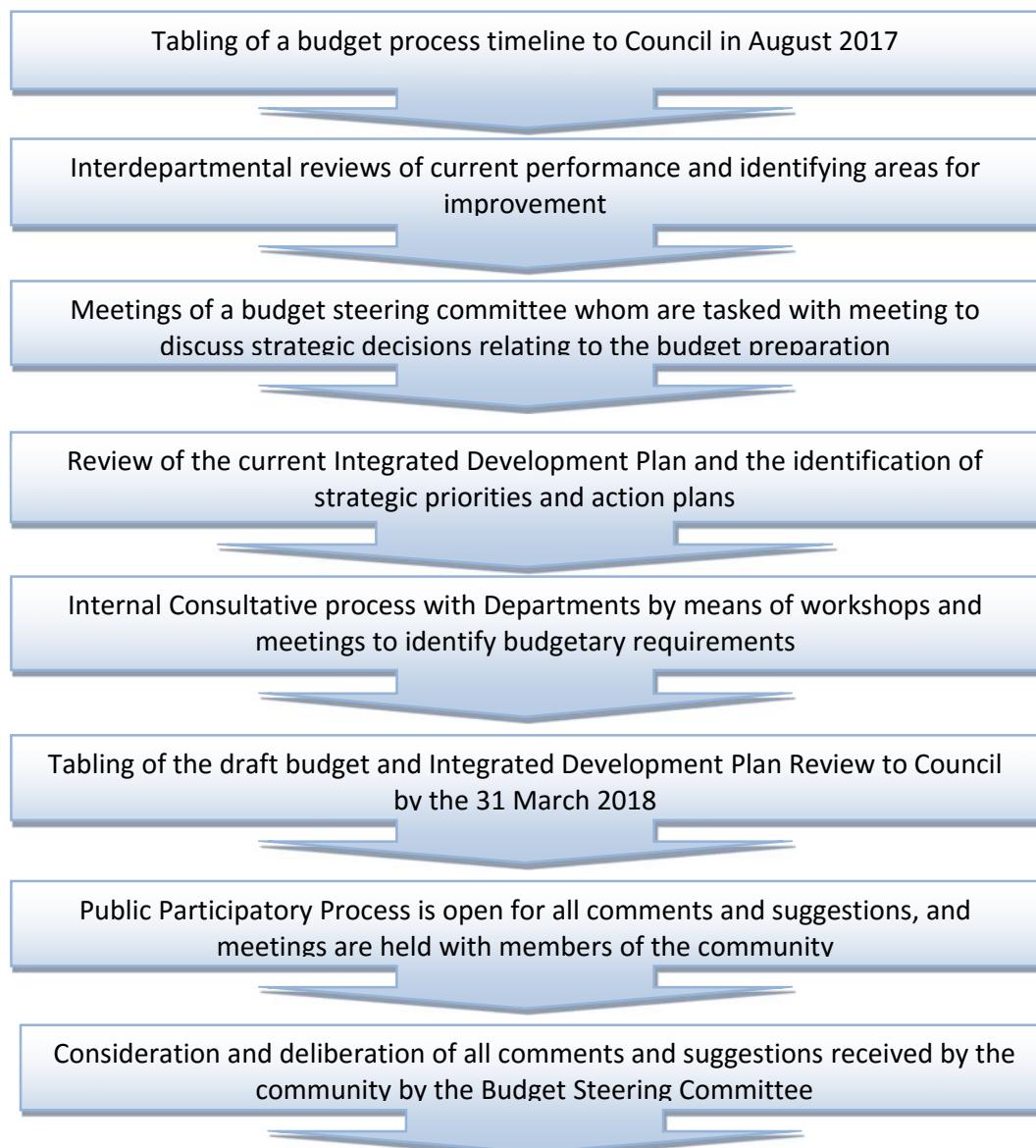
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8. OVERVIEW OF THE ANNUAL BUDGET PROCESS

The budget process is guided by various legislative frameworks and regulations, including the Local Government Municipal Finance Management, No, 56 of 2003, the Municipal Systems Act, 2000 and the municipal Budget and Reporting Regulations

Adherence to these guidelines and regulations are imperative during the budget preparation to ensure an effective, credible and sustainable budget. The review of past practices and performance is further necessary, to identify areas of weakness which can be addressed, as well as maintain the level of performance in areas where this has been achieved.

The process embarked upon for the preparation of the 2018/2019 budget can be illustrated below:





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Tabling of the final budget to Council for consideration by the 25 May 2018

9. OVERVIEW OF THE ALIGNMENT OF THE BUDGET TO THE INTEGRATED DEVELOPMENT PLAN

The alignment of the budget to the integrated development plan is crucial in order to ensure the effectiveness of any budget. Various internal consultative sessions were held with Councilors and officials in order to determine the strategic priorities for the municipality in the upcoming financial year. Both the integrated development plan and the budget has incorporated these priorities and action plans, and therefore assisted in the alignment of both the budget and the integrated development plan.

10. OVERVIEW OF THE BUDGET RELATED POLICIES

The budget related policies are currently under review and any comments or suggestions received during the public participation process will be considered.

11. BUDGETING ASSUMPTIONS

The budgeting assumptions that brace the 2018/2019 budget preparation are as follows:

Revenue

- All revenue levels were based on current and past year actual trends, and therefore resulted in a realistic revenue base and kept in line with inflation as far as possible;
- Property rates and refuse removal tariffs were kept constant and refuse removal increased by 5.3%
- All other income has increased minimally in order to maintain affordability and credibility

Expenditure

- Expenditure levels were kept as low as possible whilst prioritizing service delivery
- The following areas were targeted in terms expenditure:
 - Councilors Allowances – this has been set at the upper limit provided by SALGA.
 - Employee related costs
 - General expenses
 - Repairs and maintenance
- Employee costs were budgeted at an estimated increase of 7% based on the salary increases trend as the collective agreement is not yet finalized. As explained above measures were put in place to curb the growing employee related costs.



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- Administrative costs were reduced.